

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01

LAB-04 SIL-01 OMB-01 DODE-00 PA-01 USIA-06 PRS-01

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FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 6522

INFO ALL CONSULS MEXICO

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E.O. 11652: GDS

TAGS: MX, PINT

SUBJ: EXCELSIOR TANGLES WITH TREASURY SECRETARY LOPEZ PORTILLO  
ON REPORTED CAPITAL LEVY TAX

SUMMARY: WHILE MOST NEWSPAPERS FEB 24-28 WERE DEVOTING FRONT PAGE SPACE TO VISITING QUEEN ELIZABETH, MEXICO CITY'S EXCELSIOR ENGAGED TREASURY SECRETARY LOPEZ PORTILLO IN A HEATED EXCHANGE OVER AN EXCELSIOR ARTICLE THAT TREASURY PLANNED A NEW CAPITAL LEVY TAX. BOTH PARTICIPANTS WERE BLOODIED IN THE BATTLE, WITH IMPLICATIONS FOR LOPEZ'S PRESIDENTIAL ASPIRATIONS UNCERTAIN.  
END SUMMARY.

2. ON FEB 25 EXCELSIOR, MEXICO'S MOST INFLUENTIAL NEWSPAPER, HEADLINED THE STATEMENT THAT ALL WEALTH IN EXCESS OF 40,000 DOLLARS WOULD BE TAXED, AND IN ACCOMPANYING STORY DESCRIBED AT LENGTH A DRAFT LAW (ANTEPROYECTO) WHICH WOULD:

(A) IMPOSE AND PROGRESSIVELY INCREASE TAXES ON WEALTH OVER \$40,000;

(B) BE COMPREHENSIVE, FROM CASH DEPOSITS TO VALUABLE PLANTS; AND

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(C) TO DISCOURAGE FRAUDULENT DECLARATIONS, GIVE GOM RIGHT

TO PURCHASE PROPERTY AT OWNER-DECLARED VETUE.

2. IN EDITORIAL SAME DAY EXCELSIOR SUPPORTED IDEA OF THOROUGH TAX REFORM (WITHOUT MENTIONING CAPITAL LEVY TAX), EMPHASIZING THAT PROGRESSIVE TAXES HAD SOCIALLY DESIREBLE EFFECT OF REDISTRIBUTING WEALTH. IT URGED REFORM NOT BE DELAYED, SINCE DELAY ALLOWED THOSE AFFECTED TO INCREASE RESISTANCE.

3. ADVERSE PUBLIC REACTION TO CAPITAL LEVY WAS IMMEDIATELY FORTHCOMING. FOUR PRI (RULING PARTY) DEPUTIES FOR EXAMPLE, CHARACTERIZED TAX AS "OF DUBIOUS CONSTITUTIONALITY, INEQUITABLE, AND TECHNICALLY FAULTY". HOWEVER EXCELSIOR RECEIVED ITS SHARE OF CRITICISM, TOO.

4. (A) ON FEB 28 RESPONDING TO CRITICISMS ALLEGING MISREPRESENTATION AND POLITICAL MOTIVE, EXCELSIOR PRINTED PHOTOGRAPH OF INTERNAL TREASURY DOCUMENT SHOWING THAT TREASURY INTENDED TO CONDUCT STUDY (AMONG MANY OTHERS) OF THE "DESIRABILITY OF ESTABLISHING A TAX... ON WEALTH". DOCUMENT DID NOT REFER TO A DRAFT LAW.

(B) IN A BARRAGE OF THREE EDITORIALS, EXCELSIOR DENIED POLITICAL MOTIVATION, CLAIMED TREASURY DOCUMENT PROVED THAT TREASURY "WAS, IN FACT, STUDYING POSSIBILITY OF PERSONAL WEALTH TAX" AND (WITH REFERENCE TO ITS STORY ON THE DRAFT LAW) SAID THAT "PUBLICATION OF DOCUMENTS RELATED TO THIS SUBJECT (WAS) NOT IRRATIONAL".

5. THE CONTROVERSY PEAKED FEB 28 WITH LOPEZ PORTILLO REBUTTAL BEFORE MEETING OF PROMINENT BUSINESSMEN. PRESIDENT ECHEVERRIA ATTENDED IN PART, LEAVING BEFORE LOPEZ PORTILLO SPOKE.

6. LOPEZ CONFIRMED AUTHENTICITY OF DOCUMENT REGARDING INTERNAL STUDY (PARA 4A). HE VEHEMENTLY PROCLAIMED, HOWEVER, THAT THE DESCRIPTION OF THE ALLEGED PROPOSED LAW PUBLISHED FEB 25 WAS TAKEN FROM A 4-YEAR OLD DRAFT LAW WHICH HAD BEEN "DISCARDED". HE ATTACKED EXCELSIOR BKZYELLOW, SENSATIONALIST JOURNALISM") FOR REPRESENTING A 1971 DOCUMENT AS A CURRENT ONE, AND RIDICULED EXCELSIOR'S ATTEMPT AT LINKING THE DISCARDED DOCUMENT WITH A CONFIDENTIAL

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STUDY PROJECT NOT YET BEGUN.

7. QUESTIONED ABOUT THE POSSIBILITY OF FISCAL REFORM MARCH 1, PRESIDENT ECHEVERRIA SAID HE DID NOT THINK "ANYTHING ESSENTIAL" WOUTD BE PROPOSED IN THE NEXT FEW MONTHS.

8. COMMENT:

(A) INASMUCH AS EXCELSIOR COULD SUBSTANTIATE ONLY THAT TREASURY PLANNED A STUDY, WE BELIEVE IT DID PRESENT A FOUR YEAR OLD DOCUMENT AS IF IT WERE A DRAFT LAW.

(B) ALTHOUGH EXCELSIOR SUPPORTED IDEA OF PROGRESSIVE TAXATION AND ARGUED THAT BRINGING TAX TO PUBLIC ATTENTION WOULD PREVENT THOSE AFFECTED FROM INCREASING RESISTANCE, EFFECT OF PUBLICATION WAS JUST THE OPPOSITE, AND OF COURSE PREDICTABLE.

(C) FOR FOREGOING REASONS, IT IS PLAUSIBLE THAT EPISODE WAS ATTEMPT TO DISCREDIT LOPEZ PORTILLO WITH THOSE FROM WHOM HE MOST NEEDS SUPPORT - MEXICO'S BUSINESS AND FINANCIAL SECTORS AND UPPER MIDDLE AND UPPER CLASSES. HOWEVER, LESS BYZANTINE EXPLANATIONS COULD FIT - PREMATURE PUBLICATION, OPPOSITION TO TAX ON WEALTH IN PARTICULAR RATHER THAN OPPOSITION TO PROGRESSIVE TAXATION GENERALLY OR TO LOPEZ PORTILLO.

(D) WHETHER LOPEZ'S PRESIDENTIAL CHANCES HAVE BEEN HURT IS NOT YET CLEAR. HIS DENIAL AND COUNTERATTACK WERE DELAYED BY INVOLVEMENT WITH QUEEN'S VISIT, BUT WAS CONVINCING, ONCE MADE. ACTUALLY, HE MAY HAVE GAINED POPULARITY WITH CONSERVATIVE ELEMENTS WHO DISLIKE EXCELSIOR.

(E) ECHEVERRIA'S NOT GETTING INVOLVED MAY BE AN INDICATION THAT HE REGARDED THIS AS A POLITICAL DISPUTE IN WHICH HE OUGHT NOT TO TAKE SIDES.JOVA

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